



SB 1234 (De León-Steinberg) California Retirement Savings Plan

PURPOSE:

Create a supplemental retirement savings plan for California's private sector workers that do not have access to retirement plans through their jobs. The California Retirement Savings Plan would be a reliable, affordable, and completely portable retirement savings plan for the millions of Californians without a workplace retirement plan.

BACKGROUND:

Retirement Insecurity: Californians at Risk

Across the United States, millions of workers will retire into poverty because they will not have enough in assets to meet their basic needs in their senior years. Here in California, nearly one-half of workers will face significant economic hardship in retirement, with incomes below 200% of the federal poverty threshold. The most at-risk groups are young workers age 25-44 and low-income workers, but even middle-income workers will be at substantial risk of not having enough retirement income to be self-sufficient.

Since the nation's personal savings rate is extremely low and retirement planning is now largely controlled by private for-profit Wall Street investment firms, the United States is staring at an economic time bomb that left unaddressed will overwhelm taxpayer-funded entitlement and other safety net programs. The lack of retirement savings affects all Californians, as seniors without sufficient retirement savings will more likely need to rely on government assistance with housing, health care and other basic necessities.

According to a recent report by the UC Berkeley Center for Labor Research and Education, *Meeting California's Retirement Security Challenge* (October 2011), **62% of private sector workers in California do not participate in an employer-sponsored retirement plan**, compared to 57% in the United States as a whole. Also, workers in small and medium sized firms are disadvantaged in their access to employer-sponsored retirement plans—in California, 84% of people working for employers with 25 or fewer workers do not participate in a retirement plan at work.

Social Security is the foundation of retirement income for the vast majority of retirees in California, but these payments alone, averaging \$1,181 per month, are not enough to sustain workers in retirement. Although Social Security has reduced the poverty rate among retirees in general, women and minorities are disproportionately represented among retirees living in poverty and among low-income retirees. In California, approximately 2/3 of the retirees living in poverty are women.

PROPOSAL:

California workers in the private sector need a lifelong retirement savings system that provides them with the opportunity to build their assets and achieve financial stability in retirement. The California Retirement Savings Plan would provide a vital supplement to Social Security income by offering participants a low-risk, low-cost, and completely portable retirement savings plan that will have a guaranteed interest rate on their retirement savings.

Employers that want to offer their employees a retirement savings plan also need a way to help their employees save for retirement. Private sector employers often face significant barriers in setting up their own workplace retirement plans—in addition to the costs of hiring service providers and paying service fees, plans such as 401(k)s can be complex to maintain and administer, employers must accept fiduciary responsibility, and they are subject to an array of rules and regulations.

Under the California Retirement Savings Plan, voluntary contributions from employees and employers would be pooled into a professionally-managed retirement fund that leverages economies of scale and longer investment horizons to offer every California worker the chance to enroll in a retirement savings plan.

Here in California, over 7 million private sector workers do not have access to a retirement plan at their place of employment. If these workers contributed 3% of their earnings towards a retirement fund, the fund would generate an estimated \$6.6 Billion in the first year alone.

This legislation seeks to accomplish all of the following:

California Retirement Savings Investment Board

- Create the California Retirement Savings Trust, administered by the California Retirement Savings Investment Board. This governing and oversight board would be chaired by the State Treasurer and modeled after ScholarShare, California's 529 College Savings Plan.
- In addition to the State Treasurer, the seven-member Board would include the State Controller, Director of Finance, an individual with retirement savings and investment experience appointed by the Senate Rules Committee, a small business representative and a public member each appointed by the Governor, and an employee representative appointed by the Speaker of the Assembly.
- In establishing the California Retirement Savings Plan, the Board would hire private firms to manage the investment portfolio and the retirement savings accounts, and also secure underwriting through private insurers to guarantee the rate of return on the retirement savings plans. CalPERS would also be eligible to bid on the contract to manage the investment portfolio provided it could form a partnership with private vendors to handle the day-to-day account management and obtain the necessary private insurer underwriting.

Taxpayer Protections

- Prior to the development of the California Retirement Savings Plan, direct the Board to conduct a market analysis to determine the viability of implementation, including the assessment of likely participation rates, contribution levels, and the feasibility of investment vehicles. The market analysis would only be conducted if sufficient funds are made available through a non-profit or private entity, federal funding, or an annual Budget Act appropriation for this purpose.

- Following the market analysis, forward the Board's findings to the Chairs of the Senate Public Employment and Retirement Committee and the Assembly Public Employees, Retirement and Social Security Committee.
- The implementation of the California Retirement Savings Plan would only move forward if the Board notifies the Director of Finance that based on the market analysis the program will be completely self-sustaining.
- Before studying, developing and obtaining the necessary approvals to fully implement the California Retirement Savings Plan, the Board would have to receive sufficient funding to cover start-up costs through a non-profit, private entity, or federal funding.
- Once fully implemented, the California Retirement Savings Trust would be self-sustaining and extremely low-risk due to the modest guaranteed benefit (likely tied to the 30-year Treasury-bond rate) and long investment horizon. In guaranteeing the rate of return for the defined benefit retirement savings plans, ensure zero-liability to the state by requiring the Board to secure private underwriting.

Employee Participation in the California Retirement Savings Plan

- When the Board officially opens the California Retirement Savings Plan for enrollment, allow employers to voluntarily make the plan available to their employees and use their payroll system to directly deposit employee contributions into the retirement savings plan.
- Phase-in employee participation into the California Retirement Savings Plan—only employers that do not offer their own retirement plans (such as a 401(k)) would have to perform the ministerial duty of allowing their workers to access their payroll system to send automatic employee contributions to the plan:
 - Employers with 100+ employees: make the California Retirement Savings Plan available to their employees and allow them to access their payroll system within 3 months of the Board opening the program for enrollment;
 - Employers with 50+ employees: within 6 months;
 - Employers with 5+ employees: within 9 months.
- Set the employee default savings amount at 3%, and authorize the Board to adjust the amount between 2%-4% and vary the amount according to the length of time the employee has contributed to the California Retirement Savings Plan.
- Voluntary employee participation—employees that do not want to enroll and make contributions to the California Retirement Savings Plan can opt-out at any time.
- Employees that already have access to a workplace retirement plan can also voluntarily participate in the California Retirement Savings Plan. However, their employer would not be obligated to allow them to utilize their payroll system to make automatic payroll deductions to the program.

Role of Employers

- Unlike employer-sponsored retirement plans such as 401(k)s, employers participating in the California Retirement Savings Plan would not bear any fiduciary responsibility and would not be required to pay administrative fees or comply with quarterly-reporting mandates.

- Employers that opt to make the California Retirement Savings Plan available to their employees would have the limited obligation of allowing their employees to access their payroll system to make reliable, systematic, automatic deductions to the program.
- Voluntary employer contributions—employers participating in the California Retirement Savings Plan would be allowed to use the program to make contributions on their employees’ behalf or match their employees’ contributions.
- Employers would retain the option at all times to set up and offer their own retirement plans instead of permitting their employees’ access to the California Retirement Savings Plan.
- If employers without a workplace retirement plan do not make their payroll system available for employees to remit retirement savings contributions, the Employment Development Department (EDD) would be allowed to assess and collect a penalty of \$1,000 per employee. Employers would be allowed a 90-day grace period to comply without penalty.

Role of the Employment Development Department

- Direct the EDD to modify its exemption certificate form to permit eligible employees to opt-out of their requirement savings plan options.
- EDD would amend the form and provide outreach and marketing to the employer community.